MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BEC1054 – FUNDAMENTALS OF ECONOMICS

(All sections / Groups)

11 FEBRUARY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages with 2 sections:
   Section A: **FORTY (40)** multiple choice; and
   Section B: **THREE (3)** structure questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS

1. The market value of all final goods and services produced within domestic territory of the country during a year is known as _____.
   a. gross domestic product
   b. gross national product
   c. statistical discrepancy
   d. capital consumption allowance

2. In what circumstances is an economy said to be in recession?
   a. If real GDP falls in one quarter compared with the quarter before.
   b. If real GDP falls for two consecutive quarters.
   c. If real GDP falls in one year compared with the year before.
   d. If real GDP falls for two consecutive years.

3. Double counting would occur if _____.
   a. GDP were calculated by adding together C, I, G, and NX.
   b. used goods were included in the GDP calculation.
   c. imports were subtracted from GDP.
   d. Inventories were not added to the GDP calculation.

4. An expansion is a period in which _____.
   a. unemployment rises
   b. output rises
   c. the price level falls
   d. output declines

5. When the value of a nation's imports exceeds the value of that nation's exports, the nation is said to have _____.
   a. hyperinflation
   b. a trade deficit
   c. price stability
   d. a trade surplus

6. If during 2020, the country of ABC recorded a NNP of RM65 billion, interest payments of RM15 billion, imports of RM13 billion, profits of RM7 billion, exports of RM15 billion, and rent of RM7 billion. The wages during 2020 in Country ABC were _____.
   a. RM36 billion
   b. RM38 billion
   c. RM51 billion
   d. RM64 billion

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7. A key statistic to measure economic growth is _____.
   a. the Dow Jones stock market index.
   b. life expectancy
   c. real GDP
   d. the size of the government's budget

8. If the prices of all goods and services produced in the economy rose while the quantity of all goods and services stayed the same, which would rise?
   a. Both real GDP and nominal GDP.
   b. Real GDP but not nominal GDP.
   c. Nominal GDP but not real GDP.
   d. Neither nominal GDP nor real GDP.

9. Thomas, a U.S. citizen, works in Canada. The value of the output he produces is _____.
   a. included in both U.S. GDP and U.S. GNP
   b. included in U.S. GDP, but it is not included in U.S. GNP
   c. included in U.S. GNP, but it is not included in U.S. GDP
   d. included in neither U.S. GDP nor U.S. GNP

10. The aggregate supply curve shows the relationship between the _____.
    a. price of oil and the quantity of aggregate output supplied
    b. aggregate price level and the quantity of aggregate output supplied
    c. price of money and the quantity of aggregate output supplied
    d. level of employment and the quantity of aggregate output supplied

11. Which of the following will shift the short-run aggregate supply curve to the right?
    a. Economy-wide decrease in commodity prices.
    b. Increase in nominal wages.
    c. Increase in productivity.
    d. Decrease in government purchases of goods and services.

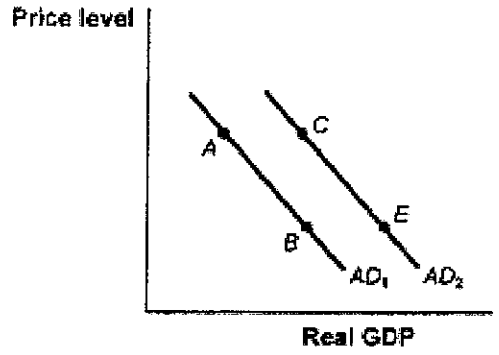
12. The long-run aggregate supply curve is vertical because in the long run _____.
    a. technological progress outpaces raises in nominal wages
    b. all factors of production increase
    c. the price of labor is flexible, while the price of physical capital is fixed
    d. all prices are flexible

13. Aggregate demand will shift to the right, if _____.
    a. the aggregate price level increase
    b. government purchases increases
    c. there is an increase in taxes
    d. there is a decrease in the money supply

Continued .....

14. In the short-run, when there is an increase in aggregate demand, the aggregate price level will _____.
    a. rise and the aggregate output level will decrease
    b. rise and the aggregate output level will increase
    c. fall and the aggregate output level will increase
    d. fall and the aggregate output level will decrease

15. Figure 1



Refer to Figure 1. A movement from point C on AD_2 to point A on AD_1 may have been the result of _____.
    a. an increase in investment demand due to optimistic GDP forecasts
    b. a decrease in investment due to pessimistic GDP forecasts
    c. decrease in the taxes paid by business
    d. lower interest rates

16. Which of the following would not be included in aggregate demand?
    a. An increase in firms' inventories.
    b. Purchases of goods by households.
    c. Firm's purchases of newly produced machinery.
    d. Government's tax collections.

17. The wealth effect, interest rate effect, and international trade effect are all explanations for _____.
    a. the slope of short-run aggregate supply
    b. the slope of long-run aggregate supply
    c. the slope of the aggregate demand curve
    d. everything that makes the aggregate demand curve shift

18. The unemployment rate is the ratio of all of the people _____.
    a. out of work to the total population
    b. out of work to those over age 16
    c. unemployed to those looking for work
    d. unemployed to those in the labor force

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19. Discouraged workers are those individuals who _____.
    a. are getting paid too little
    b. do not like their job
    c. are working part-time but are looking for a full-time job
    d. have given up looking for a job

20. The deviations in the actual rate of unemployment away from the natural rate of unemployment is called _____.
    a. seasonal unemployment
    b. frictional unemployment
    c. cyclical unemployment
    d. structural unemployment

21. Table 1

Year	Price Index
2008	100
2009	104
2010	103
2011	110

Refer to Table 1. What is the inflation rate between the years 2010 and 2011?
    a. 6.8 percent
    b. 4 percent
    c. -1 percent
    d. 6 percent

22. Which of the following statement is false?
    a. Both frictional and structural unemployment can occur even if unemployment is at its natural level.
    b. A new college graduate looking for a first professional job may experience frictional unemployment.
    c. Efficiency wages may cause frictional unemployment.
    d. Cyclical unemployment is unemployment that is in excess of that associated with the natural level of employment.

23. Which of the following is not correct?
    a. The consumer price index gives economist a way of turning RM figures into meaningful measures of purchasing power.
    b. The consumer price index is used to monitor changes in the cost of living over time.
    c. The consumer price index is used by economists to measure the inflation rate.
    d. The consumer price index is used to measure the quantity of goods and services that the economy is producing.

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24. The government has a budget deficit if _____.
    a. its total revenues are equal to its total expenditures.
    b. its total revenues are less than its total expenditures.
    c. its total revenues are greater than its total expenditures.
    d. the money supply is less than total expenditures.

25. An economy is in the midst of recession. An example of a government policy aimed at moving the economy back to potential GDP is a(n) _____.
    a. increase taxes
    b. increase in government spending on infrastructure improvements
    c. increase in the property tax
    d. decrease in unemployment benefits

26. If there is an increase in government purchases, then _____.
    a. AD will shift to left, causing an increase in the price level and a decrease in real GDP.
    b. AD will shift to right, causing an increase in price level and an increase in real GDP.
    c. SRAS will shift to left, causing an increase in the price level and a decrease in real GDP.
    d. SRAS will shift to right, causing a decrease in price level and as decrease in real GDP.

27. If the economy is at equilibrium above potential output, there is a(n) _____.
    a. recessionary gap, and expansionary fiscal policy is appropriate
    b. inflationary gap, and contractionary fiscal policy is appropriate
    c. recessionary gap, and contractionary fiscal policy is appropriate
    d. inflationary gap, and expansionary fiscal policy is appropriate

28. The economy policy of changing the quantity of money, hence the interest rate and the overall spending in the economy, is known as _____.
    a. monetary policy
    b. fiscal policy
    c. free-market policy
    d. supply-side policy

29. Currency in circulation, traveler's checks, and checkable bank deposits are the components of _____.
    a. M1 only
    b. M2 only
    c. both M1 and M2
    d. M3 only

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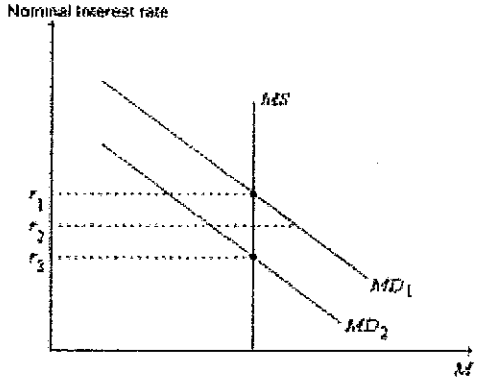
30. If the reserve ratio is 25 percent and the money supply increase by RM100,000, then the initial reserve injection by central bank was _____.
    a. RM2,500
    b. RM10,000
    c. RM4,000
    d. RM25,000

31. When the central bank sells government bonds, the reserves of the banking system _____.
    a. increase, so the money supply increases
    b. increase, so the money supply decreases
    c. decrease, so the money supply increases
    d. decrease, so the money supply decreases

32. Figure 2



Refer to Figure 2. Which of the following events could explain a shift of the money demand curve from MD_1 to MD_2?
    a. A decrease in the price level.
    b. A decrease in the cost of borrowing.
    c. An increase in the price level.
    d. An increase in the cost of borrowing.

33. Refer to Figure 2. Suppose the money demand curve is currently MD_1. If the current interest rate is r_2, then _____.
    a. the quantity of money that people want to hold is less than the quantity of money that the central bank has supplied
    b. people will respond by selling interest-bearing bonds or by withdrawing money from interest-bearing bank accounts
    c. bond issuers and banks will respond by lowering the interest rates they offer
    d. in response, the money demand curve will shift rightward from its current position to establish equilibrium in the money market

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34. Money is the most liquid asset available because _____.
    a. it is a store of value
    b. it is a unit of account
    c. it is a medium of exchange
    d. it has intrinsic value

35. If Malaysia exports are RM150 billion and imports are RM100 billion, which of the following is correct?
    a. Malaysia has a trade surplus of RM100 billion.
    b. Malaysia has a trade surplus of RM50 billion.
    c. Malaysia has a trade deficit of RM100 billion.
    d. Malaysia has a trade deficit of RM50 billion.

36. The phrase "gains from trade" refers to the _____.
    a. profits obtained from sales of a good or service
    b. increase in total output that is realized when individuals specialize in particular tasks and trade with each other.
    c. gains that one obtains by taking advantage of an uninformed buyer and selling at a higher than average price.
    d. gains that one obtains by taking advantage of temporary discount or sale price,

37. A quota is a _____.
    a. tax on an imported good
    b. legal limit on the amount of a good that may be imported
    c. legal limit on the price of a good that may be imported
    d. subsidy to domestic producers of a good whose substitute is imported

38. Under floating exchange rate system, exchange rate is determined by the _____.
    a. demand for foreign exchange
    b. supply of foreign exchange
    c. supply and demand forces of foreign exchange
    d. government

39. A change from RM4.80 per dollar to RM4.60 per dollar indicates that RM _____.
    a. appreciated
    b. depreciated
    c. no change
    d. either appreciated or depreciated.

40. If the Canadian exchange rate appreciates, which of the following will happen?
    a. Exports increase and imports decrease.
    b. Exports decrease and imports increase.
    c. Exports and imports both increase.
    d. Exports and imports both decrease.

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SECTION B: STRUCTURAL QUESTIONS

QUESTION 1

(a) Present your explanations on the FIVE (5) phases of business cycle. (10 marks)

(b) The following table shows the national income figures, price indices and population for a hypothetical country in years 2020 and 2021.

	2020	2021
Nominal GDP	RM5,000 million	RM7,200 million
Price Index (year 2000 = 100)	120	160
Labor Force	10 million	11 million

(i) Compute the real GDP in years 2020 and 2021. (4 marks)

(ii) Compute the inflation rate in year 2021. (3 marks)

(iii) Assume the number of unemployed people is 60,000 in year 2021, compute the unemployment rate in year 2021. (3 marks)

[Total: 20 marks]

QUESTION 2

(a) Apply the aggregate demand and short-run aggregate supply (AD-SRAS) model, illustrate and present your explanations on the effects on the equilibrium price level and real gross domestic product (GDP) for each of the following events:

(i) An increase in wage rates due to the implementation of minimum wage policy. (5 marks)

(ii) In 2021, the government allocates RM300 million under eBelia programme to provide e-wallet credit of RM150 to eligible youths through various participating platforms. (5 marks)

(b) Assume Bank X has accumulated RM2.2 million of reserve at the end of 2020 and total deposit of RM21 million in the early 2020. The required-reserve ratio is 8.5%. In December 2021, Bank X receives a new deposit of RM18 million from the government securities sales.

(i) Compute the amount of reserve that needs to be added after receiving the new deposit. (4 marks)

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(ii) Compute the total checkable deposits created by extending new loans from the sales of government securities. (3 marks)

(iii) Compute the maximum change in demand deposits from the new deposit if the required-reserve ratio increases to 9%. (3 marks)

[Total: 20 marks]

QUESTION 3

(a) Suppose that the Cuba and Denmark can produce both meat and cotton only. Information is given in the following table.

Country	Current Production Level	
	Meat	Cotton
Cuba	80	160
Denmark	100	80

(i) Based on your understanding about absolute and comparative advantages, predict which country enjoys the absolute and comparative advantage for each product. (6 marks)

(ii) Assume that the terms of trade is 1 meat exchange for 1.6 cotton and Cuba would like to import 90 meats. Predict the 2 countries' gain from trade. Show how much the gains are. (4 marks)

(iii) Sketch the Production Possibilities Frontier and Trading Possibilities Frontier for both countries after the trade took place. Clearly show the initial production level and after trade output level. (3 marks)

(b) Present the differences between fixed and floating exchange rate system. (4 marks)

(c) Present a discussion of the TWO (2) types of restriction to trade. (3 marks)

[Total: 20 marks]

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